

Sun Life Assurance Company of Canada (U.K.) Limited (“SLOC”)

# The Directors’ Report to Plan-holders

SLOC With-Profits Fund in 2022



Sun Life Financial  
of Canada

## Introduction

This report explains:

- How we managed the SLOC With-Profits Fund (the “Fund”) in 2022.
- Whether we complied with the Principles and Practices of Financial Management (“PPFM”) that sets out how we manage the Fund, how we respond to long-term economic changes, and how we meet plan-holders’ needs.
- How we made key decisions during 2022.
- Whether we took plan-holders’ expectations into account appropriately.

We have taken advice from our With-Profits Actuary and there is a separate With-Profits Actuary’s statement at the end of this report.

## Summary

We considered the advice and reports of the With-Profits Committee and the With-Profits Actuary, and are satisfied that, for the financial year 2022:

- We managed the Fund in line with the PPFM.
- We made key decisions and used management discretion in a way that was consistent with the PPFM.
- We have taken into account all plan-holders and their rights, interests and expectations properly, as described in the PPFM.
- We have treated plan-holders fairly and, where there are competing or conflicting interests and expectations of different groups of plan-holders, we have complied with the PPFM.

## Investment management

### Information for endowment and whole of life plan-holders

The investment strategy of the Fund in respect of the life business, is to provide the highest potential investment return whilst preserving the financial condition of the Fund and paying any guarantees promised to plan-holders when these are due. To do this the Fund invests mainly in a diverse range of longer-term assets. These include government and other high-quality bonds, which are loans to the UK and foreign governments and companies that are raising money. These assets are referred to as fixed interest investments because we know the income that we expect to receive from them, although their market value will change over time.

We also invest some of the Fund in company shares and property. Owning shares means that the Fund is a part-owner of these companies and so receives a portion of their profits. Property investments usually receive income in the form of rent. Both of these types of asset have the potential to provide investment growth but also carry a higher risk of their value going up or down.

We consider the Fund to have been financially strong throughout 2022 and so maintained the target for the portion of the Fund invested in higher risk company shares and property at 40% with a range of 35% to 45%.

The table below shows how much we invested in different types of assets for endowment and whole of life plans.

Asset class	End 2021	End 2022
Fixed interest and other assets *	56.7%	57.4%
UK company shares	19.4%	18.7%
International company shares	12.9%	11.8%
Property	9.4%	9.9%
Cash	1.6%	2.1%

\*Other assets include plan loans, where policyholders have borrowed against the early exit value of their plan.

We review these amounts regularly to make sure we continue to meet our aims.

The Fund’s net return in 2022 was -11.2% (after tax and investment expenses).

Returns by asset class over 2022, before tax and expenses, are shown below and compared to market performance. Other than cash, all other Fund asset classes reduced in value. Increases in fixed interest rates significantly reduced the value of the largest class, fixed interest assets.

Asset class	Fund	Market
Fixed interest	-22.7%	-22.6%
UK company shares	-0.8%	+0.4%
International company shares	-6.2%	-7.7%
Property	-1.3%	-9.9%
Cash	+1.4%	+1.4%

### Information for pension plan-holders

The investment strategy of the Fund in respect of pensions business is to provide a stable investment return through investment in fixed interest investments. It is necessary to take account of the financial condition of the Fund and the minimum guaranteed interest rates applicable to each type of plan during the period before retirement, and also the cash flow requirements of the plans. During 2022, we made no material changes to the investment strategy for the Fund’s pensions business. It continues to provide a stable return through investment in fixed interest assets and cash. We continue to invest in derivatives that give

the Fund a fixed rate of interest; this protects the Fund from reductions in interest rates. We also invest in fixed interest bonds held in euros. This helps to protect the Fund's Irish Pension Plans from fluctuations caused by changes in currency exchange rates. Most pension plan-holders have benefits fixed at guaranteed levels, so are not affected by the investment strategy.

## Management of payouts – whole of life and endowment plans

A key part of management discretion is to decide the annual and final bonuses paid to plan-holders.

**Smoothing** – In determining bonus rates, we use a process known as 'smoothing', which provides a cushion against the short-term ups and downs of investment markets. We do this by reinvesting some of the profits from 'up' years to smooth out any losses in the 'down' years. Our intention is, in normal circumstances, to limit the year-on-year change in the amounts paid to similar policies to no more than 10%. Smoothing, however, cannot protect against the impact of persistently low investment returns.

Following the large interest rate increases in 2022, which were determined to be outside of 'normal circumstances', we exceeded the 10% smoothing limit by increasing bonus rates by up to 10% in April 2022 and a further 10% on average in October 2022.

**Distributing the Fund's excess assets** – Since 2016, we have distributed all of the Fund's excess assets to plan-holders by enhancing the benefits for all whole of life and endowment plans. It is possible, in sufficiently adverse circumstances, that we could reverse these enhancements.

**Calculating payouts** – Bonus rates depend on both the past and expected future performance of the assets.

We increased final bonus rates from 1 April 2022 to reflect investment performance in 2021 and rising expectations of future investment returns. The increase to payouts was limited to 10%, in line with our smoothing practices.

In the interest of fairness, we also paid an extra amount to policies which ended between 1 January and 31 March 2022 to reflect rising interest rates, effectively backdating the 1 April 2022 declaration to 1 January 2022.

We continued to monitor investment conditions regularly to see if we needed to amend plan payouts any further. Following further rises in interest rates over 2022, which further increased our expectations of future investment returns whilst not affecting the value of investments in company shares and properties, we increased payouts by a further 10% from October 2022. This was in the interest of fairness to policyholders exiting the Fund in the near term, so that we did not hold back more assets in the Fund than we expect to need.

**Early exit values** – We review early exit values to make sure they meet the PPFM objectives. For whole of life and endowment plans, we use the prospective value of benefits determining fair early exit values. We monitored early exit values during 2022 and made changes from April 2022 and again from October 2022, to provide fair outcomes for those policyholders choosing to leave. Some surrender values increased and some reduced at these times.

The With-Profits Actuary gave advice to the With-Profits Committee about the impact of the recommended bonus scales and basis for early exit values.

## Management of payouts – pension plans

Interest rates for Individual Money Purchase plans did not change in 2022. Annual interest rates on premiums paid before 1 April 2018 remain at 4.25%. Annual interest rates on premiums paid on or after 1 April 2018 remain at 2% for business written in the UK and 1% for business written in Ireland.

We use two different interest rates for Personal Pension Plans. A lower annual interest rate (currently 0%) applies to contributions paid in the first 12 months\* and a higher annual rate (1.25%) to all other contributions. We did not change either rate in 2022.

(\*If the contribution level then increases, this lower interest rate also applies to the increased portion of the contribution for the first 12 months after the increase.)

The annual interest rate for other plans also stayed the same (Individual Transfer Plans at 6% and Deposit Administration at 4%), where these rates are set to honour the minimum guaranteed interest rates.

## Management of expenses

In line with the PPFM, and with the advice of the With-Profits Actuary, we continued to charge the Fund for its fair share of the company's ongoing costs. In 2022, we paid out 0.6% of the Fund in expenses.

## Revisions to the PPFM over 2022

The changes to the PPFM over 2022 include:

- Changing the smoothing limit applied to year-on-year changes to amounts paid out. The smoothing limit was changed from a maximum of 10%, to an average of 10%.
- Adding details of the Responsible Investing Principles, which are in place to include environmental, social and corporate governance factors in investment decision making and encouraging investors to take greater responsibility with their investments.
- Adding details on the management actions that could be taken in extreme economic circumstances.

## Further information

If you would like a copy of the PPFM referred to in this report, or the latest bonus notice which briefly explains how we manage the Fund, please visit our website [sloc.co.uk](http://sloc.co.uk) or call us on 0345 072 0223 (or 01256 841414 from a mobile phone).

## Report of the With-Profits Actuary of the Fund to the with-profits plan-holders

As the With-Profits Actuary ("WPA") for the Fund, it is my responsibility to advise the Board on the key aspects of discretion that it exercises in managing the with-profits business of the Fund.

Each year, I am required to address a written report to the with-profits plan-holders of the Fund on the Board's exercise of discretion in relation to that business for the period covered by the report, and whether, in the course of the exercise of discretion, the Board has taken account of the interests of the with-profits plan-holders in a reasonable and proportionate manner.

I have considered the annual report from the Directors of the Fund to with-profits plan-holders.

In my opinion:

- The report is a fair reflection of how the with-profits business has been managed during the year.
- The discretion exercised by the Board in respect of the Fund in 2022 may be regarded as having taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.
- The company has, in all material respects, complied with the Principles and Practices of Financial Management in 2022.

In reaching this opinion, I have relied upon the accuracy and completeness of the data and information provided to me by the company. I have also considered the relevant rules and guidance issued by the Financial Conduct Authority and the Prudential Regulation Authority and followed applicable professional guidance and standards.

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Fellow of the Institute of Actuaries  
Milliman LLP  
WPA for the Fund  
28 March 2023